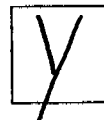


**ARIZONA CORPORATION COMMISSION**  
**UTILITIES DIVISION**

**ANNUAL REPORT MAILING LABEL – MAKE CHANGES AS NECESSARY**



W-02255A  
Yarnell Water Improvement  
P. O. Box 727  
Yarnell AZ 85362

**ANNUAL REPORT**  
**RECEIVED**

APR 20 2005

AZ Corporation Commission  
Director Of Utilities

**FOR YEAR ENDING**

<b>12</b>	<b>31</b>	<b>2004</b>
-----------	-----------	-------------

FOR COMMISSION USE

<b>ANN04</b>	<b>04</b>
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## COMPANY INFORMATION

<b>Company Name (Business Name)</b> <u>Yarnell Water Improvement Association</u>		
<b>Mailing Address</b> <u>P.O. Box 727</u>		
<u>Yarnell</u> (City)	<u>Arizona</u> (State)	<u>85362</u> (Zip)
<u>(928)-427-3321</u>	<u>(928)-427-0243</u>	
Telephone No. (Include Area Code)	Fax No. (Include Area Code)	Pager/Cell No. (Include Area Code)
<b>Email Address</b> <u>ywia@w3az.net</u>		
<b>Local Office Mailing Address</b> <u>P.O. Box 727</u>		
<u>Yarnell</u> (City)	<u>Arizona</u> (State)	<u>85362</u> (Zip)
<u>(928)-427-3321</u>	<u>(928)-427-0243</u>	
Local Office Telephone No. (Include Area Code)	Fax No. (Include Area Code)	Pager/Cell No. (Include Area Code)
<b>Email Address</b> <u>ywia@w3az.net</u>		

## MANAGEMENT INFORMATION

<b>Management Contact:</b> <u>Marie Koehler</u> <u>President</u>			
<u>P.O. Box 727</u> (Street)	<u>Yarnell</u> (City)	<u>Arizona</u> (State)	<u>85362</u> (Zip)
<u>(928)-427-3321</u>	<u>((28)-427-0243</u>		
Telephone No. (Include Area Code)	Fax No. (Include Area Code)	Pager/Cell No. (Include Area Code)	
<b>Email Address</b> <u>ywia@w3az.net</u>			
<b>On Site Manager:</b> <u>Tammy Zudell</u>			
<u>P.O. Box 727</u> (Street)	<u>Yarnell</u> (City)	<u>Arizona</u> (State)	<u>85362</u> (Zip)
<u>(928)-427-3321</u>	<u>(928)-427-0243</u>		
Telephone No. (Include Area Code)	Fax No. (Include Area Code)	Pager/Cell No. (Include Area Code)	
<b>Email Address</b> <u>ywia@w3az.net</u>			

☐ Please mark this box if the above address(es) have changed or are updated since the last filing.

<b>Statutory Agent:</b> <u>Tammy Zudell</u>			
(Name)			
P.O. Box 727	Yarnell	Arizona	85362
(Street)	(City)	(State)	(Zip)
(928)-427-3321	(928)-427-0243		
Telephone No. (Include Area Code)	Fax No. (Include Area Code)	Pager/Cell No. (Include Area Code)	
<b>Attorney:</b> _____			
(Name)			
(Street)	(City)	(State)	(Zip)
Telephone No. (Include Area Code)	Fax No. (Include Area Code)	Pager/Cell No. (Include Area Code)	

☐ Please mark this box if the above address(es) have changed or are updated since the last filing.

### **OWNERSHIP INFORMATION**

Check the following box that applies to your company:

- |  |   |
|--|---|
| <input type="checkbox"/> Sole Proprietor (S)   | <input type="checkbox"/> C Corporation (C) (Other than Association/Co-op) |
| <input type="checkbox"/> Partnership (P)   | <input type="checkbox"/> Subchapter S Corporation (Z)                     |
| <input type="checkbox"/> Bankruptcy (B)  | <input type="checkbox"/> Association/Co-op (A)                            |
| <input type="checkbox"/> Receivership (R)  | <input type="checkbox"/> Limited Liability Company                        |
| <input checked="" type="checkbox"/> Other (Describe) <u>Corporation - Non Profit</u> |   |

### **COUNTIES SERVED**

Check the box below for the county/ies in which you are certificated to provide service:

- |                                     |   |                                   |
|-------------------------------------|---|-----------------------------------|
| <input type="checkbox"/> APACHE     | <input type="checkbox"/> COCHISE            | <input type="checkbox"/> COCONINO |
| <input type="checkbox"/> GILA       | <input type="checkbox"/> GRAHAM             | <input type="checkbox"/> GREENLEE |
| <input type="checkbox"/> LA PAZ     | <input type="checkbox"/> MARICOPA           | <input type="checkbox"/> MOHAVE   |
| <input type="checkbox"/> NAVAJO     | <input type="checkbox"/> PIMA               | <input type="checkbox"/> PINAL    |
| <input type="checkbox"/> SANTA CRUZ | <input checked="" type="checkbox"/> YAVAPAI | <input type="checkbox"/> YUMA     |
| <input type="checkbox"/> STATEWIDE  |   |                                   |

**COMPANY NAME** Yarnell Water Improvement Association

**UTILITY PLANT IN SERVICE**

Acct. No.	DESCRIPTION	Original Cost (OC)	Accumulated Depreciation (AD)	O.C.L.D. (OC less AD)
301	Organization			
302	Franchises			
303	Land and Land Rights			
304	Structures and Improvements			
307	Wells and Springs			
311	Pumping Equipment			
320	Water Treatment Equipment			
330	Distribution Reservoirs and Standpipes			
331	Transmission and Distribution Mains			
333	Services			
334	Meters and Meter Installations			
335	Hydrants			
336	Backflow Prevention Devices			
339	Other Plant and Misc. Equipment			
340	Office Furniture and Equipment			
341	Transportation Equipment			
343	Tools, Shop and Garage Equipment			
344	Laboratory Equipment			
345	Power Operated Equipment			
346	Communication Equipment			
347	Miscellaneous Equipment			
348	Other Tangible Plant			
	<b>TOTALS</b>	<i>SEE ENCLOSED AUDITORS REPORT</i>		

This amount goes on the Balance Sheet Acct. No. 108

**COMPANY NAME** Yarnell Water Improvement Association

**CALCULATION OF DEPRECIATION EXPENSE FOR CURRENT YEAR**

Acct. No.	DESCRIPTION	Original Cost (1)	Depreciation Percentage (2)	Depreciation Expense (1x2)
301	Organization			
302	Franchises			
303	Land and Land Rights			
304	Structures and Improvements			
307	Wells and Springs			
311	Pumping Equipment			
320	Water Treatment Equipment			
330	Distribution Reservoirs and Standpipes			
331	Transmission and Distribution Mains			
333	Services			
334	Meters and Meter Installations			
335	Hydrants			
336	Backflow Prevention Devices			
339	Other Plant and Misc. Equipment			
340	Office Furniture and Equipment			
341	Transportation Equipment			
343	Tools, Shop and Garage Equipment			
344	Laboratory Equipment			
345	Power Operated Equipment			
346	Communication Equipment			
347	Miscellaneous Equipment			
348	Other Tangible Plant			
	<b>TOTALS</b>		<i>SEE ENCLOSED AUDITORS REPORT</i>	

This amount goes on the Comparative Statement of Income and Expense \_\_\_\_\_  
Acct. No. 403.

**COMPANY NAME** Yarnell Water Improvement Association

## **BALANCE SHEET**

<b>Acct .No.</b>		<b>BALANCE AT BEGINNING OF YEAR</b>	<b>BALANCE AT END OF YEAR</b>
	<b>ASSETS</b>		
	<b>CURRENT AND ACCRUED ASSETS</b>		
131	Cash	\$ 100	\$ 100
134	Working Funds	65,361	37,154
135	Temporary Cash Investments	55,720	56,950
141	Customer Accounts Receivable	19,721	17,234
146	Notes/Receivables from Associated Companies	Ø	Ø
151	Plant Material and Supplies	Ø	Ø
162	Prepayments	3,891	4,204
174	Miscellaneous Current and Accrued Assets	Ø	Ø
	<b>TOTAL CURRENT AND ACCRUED ASSETS</b>	\$ 145,014	\$ 115,848
	<b>FIXED ASSETS</b>		
101	Utility Plant in Service	\$ 1,556,233	\$ 1,582,107
103	Property Held for Future Use		
105	Construction Work in Progress		
108	Accumulated Depreciation – Utility Plant	(1,041,385)	(1,081,569)
121	Non-Utility Property	62,335	62,335
122	Accumulated Depreciation – Non Utility	(46,751)	(48,310)
	<b>TOTAL FIXED ASSETS</b>	\$ 530,432	\$ 514,848
	<b>TOTAL ASSETS</b>	\$ 675,446	\$ 630,411

**NOTE:** The Assets on this page should be equal to **Total Liabilities and Capital** on the following page.

**COMPANY NAME** Yarnell Water Improvement Association

**BALANCE SHEET (CONTINUED)**

Acct. No.		BALANCE AT BEGINNING OF YEAR	BALANCE AT END OF YEAR
	<b>LIABILITIES</b>		
	<b>CURRENT LIABILITIES</b>		
231	Accounts Payable	\$ 1,776	\$ 731
232	Notes Payable (Current Portion)	31,334	32,900
234	Notes/Accounts Payable to Associated Companies		
235	Customer Deposits	18,210	22,030
236	Accrued Taxes	6,039	6,859
237	Accrued Interest	443	358
241	Miscellaneous Current and Accrued Liabilities	2,446	
	<b>TOTAL CURRENT LIABILITIES</b>	\$ 60,248	\$ 66,001
	<b>LONG-TERM DEBT (Over 12 Months)</b>		
224	Long-Term Notes and Bonds	\$373,400	\$ 404,735
	<b>DEFERRED CREDITS</b>		
251	Unamortized Premium on Debt	\$	\$
252	Advances in Aid of Construction		
255	Accumulated Deferred Investment Tax Credits		
271	Contributions in Aid of Construction	653,995	653,995
272	Less: Amortization of Contributions		
281	Accumulated Deferred Income Tax		
	<b>TOTAL DEFERRED CREDITS</b>	\$ 653,995	\$ 653,995
	<b>TOTAL LIABILITIES</b>	\$	\$
	<b>CAPITAL ACCOUNTS</b>		
201	Common Stock Issued	\$ 585	\$ 588
211	Paid in Capital in Excess of Par Value		
215	Retained Earnings	(412,783)	(430,486)
218	Proprietary Capital (Sole Props and Partnerships)		
	<b>TOTAL CAPITAL</b>	\$ (412,198)	\$ (412,198)
	<b>TOTAL LIABILITIES AND CAPITAL</b>	\$ 675,446	\$ 630,411

**COMPARATIVE STATEMENT OF INCOME AND EXPENSE**

Acct. No.	OPERATING REVENUES	PRIOR YEAR	CURRENT YEAR
461	Metered Water Revenue	\$ 216,838	\$ 220,300
460	Unmetered Water Revenue		
474	Other Water Revenues		
	<b>TOTAL REVENUES</b>	\$ 216,838	\$ 220,300
	<b>OPERATING EXPENSES</b>		
601	Salaries and Wages	\$ 84,024	\$ 92,656
610	Purchased Water		
615	Purchased Power	7,805	8,099
618	Chemicals	14,903	11,468
620	Repairs and Maintenance	7,004	4,168
621	Office Supplies and Expense	9,766	9,982
630	Outside Services	5,381	209
635	Water Testing	1,907	2,533
641	Rents	692	421
650	Transportation Expenses	2,129	2,666
657	Insurance – General Liability	9,948	9,613
659	Insurance - Health and Life	2,400	0
666	Regulatory Commission Expense – Rate Case	0	1,503
675	Miscellaneous Expense	6,173	
403	Depreciation Expense	42,036	42,919
408	Taxes Other Than Income	6,969	
408.11	Property Taxes	12,077	13,718
409	Income Tax		
	<b>TOTAL OPERATING EXPENSES</b>	\$ 235,058	\$ 241,425
	<b>OPERATING INCOME/(LOSS)</b>	\$ 3,559	\$ (17,703)
	<b>OTHER INCOME/(EXPENSE)</b>		300
419	Interest and Dividend Income	\$ 2,284	\$ 1,887
421	Non-Utility Income	12,377	1,535
426	Miscellaneous Non-Utility Expenses	44	758
427	Interest Expense	21,801	20,446
	<b>TOTAL OTHER INCOME/(EXPENSE)</b>	\$ (7,184)	\$ (300)
	<b>NET INCOME/(LOSS)</b>	\$ (3,559)	\$ (17,703)

**COMPANY NAME** Yarnell Water Improvement Association

**SUPPLEMENTAL FINANCIAL DATA**

**Long-Term Debt**

	<b>LOAN #1</b>	<b>LOAN #2</b>	<b>LOAN #3</b>	<b>LOAN #4</b>
Date Issued	06/25/74	04/25/75		
Source of Loan				
ACC Decision No.				
Reason for Loan				
Dollar Amount Issued	\$ 769,000	\$ 100,000	\$	\$
Amount Outstanding	\$ 330,294	\$ 42,920	\$	\$
Date of Maturity				
Interest Rate	5 %	5 %	%	%
Current Year Interest	\$ 17,735	\$ 2,314	\$	\$
Current Year Principle	\$ 27,851	\$ 3,670	\$	\$

Meter Deposit Balance at Test Year End \$ 13,864

Meter Deposits Refunded During the Test Year \$ 1,806

<b>COMPANY NAME</b>	Yarnell Water Improvement Association
---------------------	---------------------------------------

## **WATER COMPANY PLANT DESCRIPTION**

### **WELLS**

ADWR ID Number*	Pump Horsepower	Pump Yield (gpm)	Casing Depth (Feet)	Casing Diameter (Inches)	Meter Size (inches)	Year Drilled
well #1 capped						
616737	7½	240				
616736	5	230				

\* Arizona Department of Water Resources Identification Number

### **OTHER WATER SOURCES**

Name or Description	Capacity (gpm)	Gallons Purchased or Obtained (in thousands)
standpipe	125	

<b>BOOSTER PUMPS</b>		<b>FIRE HYDRANTS</b>	
Horsepower	Quantity	Quantity Standard	Quantity Other
25	2	77	

<b>STORAGE TANKS</b>		<b>PRESSURE TANKS</b>	
Capacity	Quantity	Capacity	Quantity
40,000	1		
250,000	2		

COMPANY NAME Yarnell Water Improvement Association

**WATER COMPANY PLANT DESCRIPTION (CONTINUED)**

**MAINS**

Size (in inches)	Material	Length (in feet)
2		
3		
4		
5		
6		
8		
10		
12		

**CUSTOMER METERS**

Size (in inches)	Quantity
5/8 X 3/4	580
3/4	-
1	9
1 1/2	1
2	1
Comp. 3	-
Turbo 3	-
Comp. 4	-
Tubo 4	-
Comp. 6	-
Tubo 6	-
standpipe	1
master meter	1

For the following three items, list the utility owned assets in each category.

**TREATMENT EQUIPMENT:**

chlorine

**STRUCTURES:**

**OTHER:**

**COMPANY NAME:** Yarnell Water Improvement Association

**WATER USE DATA SHEET BY MONTH FOR CALENDAR YEAR 2004**

MONTH	NUMBER OF CUSTOMERS	GALLONS SOLD	GALLON PUMPED (Thousands)
JANUARY	516	1,304,000	1,633,000
FEBRUARY	515	1,601,700	1,935,000
MARCH	526	1,791,000	2,434,000
APRIL	531	2,707,800	3,558,000
MAY	529	3,057,000	3,796,000
JUNE	533	3,100,500	3,906,000
JULY	532	2,295,600	3,173,000
AUGUST	534	2,567,500	3,349,000
SEPTEMBER	531	2,109,800	2,776,000
OCTOBER	527	1,083,700	1,460,000
NOVEMBER	522	1,707,500	2,152,000
DECEMBER	521	1,302,200	1,729,000
TOTAL		N/A	31,901,000

**Is the Water Utility located in an ADWR Active Management Area (AMA)?**

( ) Yes                      (xx) No

**Does the Company have an ADWR Gallons Per Capita Per Day (GPCPD) requirement?**

( ) Yes                      (xx) No

**If yes, provide the GPCPD amount:** \_\_\_\_\_

**What is the level of arsenic for each well on your system.**      0.0020 mg/l

*(If more than one well, please list each separately.)*

***Note: If you are filing for more than one system, please provide separate data sheets for each system.***

COMPANY NAME Yarnell Water Improvement Association YEAR ENDING 12/31/2004

**PROPERTY TAXES**

Amount of actual property taxes paid during Calendar Year 2004 was: \$ 13,718

Attach to this annual report proof (e.g. property tax bills stamped "paid in full" or copies of cancelled checks for property tax payments) of any and all property taxes paid during the calendar year.

If no property taxes paid, explain why. \_\_\_\_\_

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COMPANY NAME Yarnell Water Improvement Association

YEAR ENDING 12/31/2004

**INCOME TAXES**

For this reporting period, provide the following:

Federal Taxable Income Reported	<u>90,824</u>
Estimated or Actual Federal Tax Liability	<u>5,466</u>

State Taxable Income Reported	<u>90,824</u>
Estimated or Actual State Tax Liability	<u>1,162</u>

Amount of Grossed-Up Contributions/Advances:

Amount of Contributions/Advances	<u>Ø</u>
Amount of Gross-Up Tax Collected	<u>Ø</u>
Total Grossed-Up Contributions/Advances	<u>Ø</u>

Decision No. 55774 states, in part, that the utility will refund any excess gross-up funds collected at the close of the tax year when tax returns are completed. Pursuant to this Decision, if gross-up tax refunds are due to any Payer or if any gross-up tax refunds have already been made, attach the following information by Payer: name and amount of contribution/advance, the amount of gross-up tax collected, the amount of refund due to each Payer, and the date the Utility expects to make or has made the refund to the Payer.

**CERTIFICATION**

The undersigned hereby certifies that the Utility has refunded to Payers all gross-up tax refunds reported in the prior year's annual report. This certification is to be signed by the President or Chief Executive Officer, if a corporation; the managing general partner, if a partnership; the managing member, if a limited liability company or the sole proprietor, if a sole proprietorship.

Marie Koehler  
**SIGNATURE**

4-19-05  
**DATE**

Marie Koehler  
**PRINTED NAME**

President  
**TITLE**

RECEIVED

VERIFICATION  
AND  
SWORN STATEMENT  
Intrastate Revenues Only

APR 20 2005

AZ Corporation Commission  
Director Of Utilities

VERIFICATION

STATE OF \_\_\_\_\_  
I, THE UNDERSIGNED  
OF THE

COUNTY OF (COUNTY NAME)
YAVAPAI
NAME (OWNER OR OFFICIAL) TITLE
Marie Koehler, President
COMPANY NAME
Yarnell Water Improvement Association

DO SAY THAT THIS ANNUAL UTILITY REPORT TO THE ARIZONA CORPORATION COMMISSION

FOR THE YEAR ENDING

MONTH	DAY	YEAR
12	31	2004

HAS BEEN PREPARED UNDER MY DIRECTION, FROM THE ORIGINAL BOOKS, PAPERS AND RECORDS OF SAID UTILITY; THAT I HAVE CAREFULLY EXAMINED THE SAME, AND DECLARE THE SAME TO BE A COMPLETE AND CORRECT STATEMENT OF BUSINESS AND AFFAIRS OF SAID UTILITY FOR THE PERIOD COVERED BY THIS REPORT IN RESPECT TO EACH AND EVERY MATTER AND THING SET FORTH, TO THE BEST OF MY KNOWLEDGE, INFORMATION AND BELIEF.

SWORN STATEMENT

IN ACCORDANCE WITH THE REQUIREMENT OF TITLE 40, ARTICLE 8, SECTION 40-401, ARIZONA REVISED STATUTES, IT IS HEREIN REPORTED THAT THE GROSS OPERATING REVENUE OF SAID UTILITY DERIVED FROM ARIZONA INTRASTATE UTILITY OPERATIONS DURING CALENDAR YEAR 2004 WAS:

Arizona Intrastate Gross Operating Revenues Only (\$)

\$ 223,722

(THE AMOUNT IN BOX ABOVE  
INCLUDES \$ 15,137  
IN SALES TAXES BILLED, OR COLLECTED)

\*\*REVENUE REPORTED ON THIS PAGE MUST INCLUDE SALES TAXES BILLED OR COLLECTED. IF FOR ANY OTHER REASON, THE REVENUE REPORTED ABOVE DOES NOT AGREE WITH TOTAL OPERATING REVENUES ELSEWHERE REPORTED, ATTACH THOSE STATEMENTS THAT RECONCILE THE DIFFERENCE. (EXPLAIN IN DETAIL)

*Marie Koehler*  
SIGNATURE OF OWNER OR OFFICIAL

TELEPHONE NUMBER

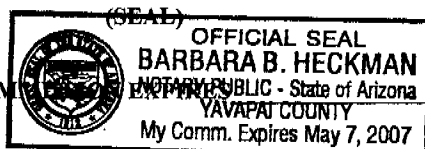
SUBSCRIBED AND SWORN TO BEFORE ME

A NOTARY PUBLIC IN AND FOR THE COUNTY OF

THIS 19 DAY OF

COUNTY NAME	Yavapai	
MONTH	April	2005

MY COM



*Barbara B. Heckman*  
SIGNATURE OF NOTARY PUBLIC

RECEIVED

VERIFICATION  
AND  
SWORN STATEMENT  
**RESIDENTIAL REVENUE**  
INTRASTATE REVENUES ONLY

APR 20 2005

Corporation Commission  
Director Of Utilities

VERIFICATION

STATE OF ARIZONA

I, THE UNDERSIGNED

OF THE

COUNTY OF (COUNTY NAME)	YAVAPAI	
NAME (OWNER OR OFFICIAL)	Marie Koehler	TITLE President
COMPANY NAME	Yarnell Water Improvement Association	

DO SAY THAT THIS ANNUAL UTILITY REPORT TO THE ARIZONA CORPORATION COMMISSION

FOR THE YEAR ENDING

MONTH	DAY	YEAR
12	31	2004

HAS BEEN PREPARED UNDER MY DIRECTION, FROM THE ORIGINAL BOOKS, PAPERS AND RECORDS OF SAID UTILITY; THAT I HAVE CAREFULLY EXAMINED THE SAME, AND DECLARE THE SAME TO BE A COMPLETE AND CORRECT STATEMENT OF BUSINESS AND AFFAIRS OF SAID UTILITY FOR THE PERIOD COVERED BY THIS REPORT IN RESPECT TO EACH AND EVERY MATTER AND THING SET FORTH, TO THE BEST OF MY KNOWLEDGE, INFORMATION AND BELIEF.

SWORN STATEMENT

IN ACCORDANCE WITH THE REQUIREMENTS OF TITLE 40, ARTICLE 8, SECTION 40-401.01, ARIZONA REVISED STATUTES, IT IS HEREIN REPORTED THAT THE GROSS OPERATING REVENUE OF SAID UTILITY DERIVED FROM ARIZONA INTRASTATE UTILITY OPERATIONS RECEIVED FROM RESIDENTIAL CUSTOMERS DURING CALENDAR YEAR 2004 WAS:

ARIZONA INTRASTATE GROSS OPERATING REVENUES

\$ 231,499

(THE AMOUNT IN BOX AT LEFT  
INCLUDES \$ 15,137  
IN SALES TAXES BILLED, OR COLLECTED)

\*RESIDENTIAL REVENUE REPORTED ON THIS PAGE  
MUST INCLUDE SALES TAXES BILLED.

*Marie Koehler*

SIGNATURE OF OWNER OR OFFICIAL

427-3321

TELEPHONE NUMBER

SUBSCRIBED AND SWORN TO BEFORE ME

A NOTARY PUBLIC IN AND FOR THE COUNTY OF

THIS

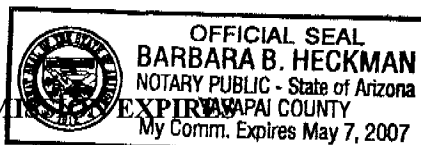
19

DAY OF

NOTARY PUBLIC NAME	Barbara B. Heckman	
COUNTY NAME	Yavapai	
MONTH	April	2005

(SEAL)

MY COMM.



X *Barbara B. Heckman*

SIGNATURE OF NOTARY PUBLIC

## **FINANCIAL INFORMATION**

Attach to this annual report a copy of the companies' year-end (Calendar Year 2004) financial statements. If you do not compile these reports, the Utilities Division will supply you with blank financial statements for completion and filing. **ALL INFORMATION MUST BE ARIZONA-SPECIFIC AND REFLECT OPERATING RESULTS IN ARIZONA.**

**Badowski & White**

**Certified Public Accountants, LLC**

R. R. Badowski, CPA

Dean S. White, CPA

Walter P. Blodgett, CPA CFP®

## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Yarnell Water Improvement Association  
PO Box 727  
Yarnell, Arizona 85362

We have audited the accompanying comparative statements of financial position of Yarnell Water Improvement Association as of December 31, 2004 and 2003, and the related comparative statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Yarnell Water Improvement Association as of December 31, 2004 and 2003, and the results of its activities and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

*Badowski & White CPAs*

**BADOWSKI & WHITE,**  
Certified Public Accountants, LLC  
February 5, 2005

**YARNELL WATER IMPROVEMENT ASSOCIATION  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2004 AND 2003**

**ASSETS**

<b>CURRENT ASSETS</b>	<b>2004</b>	<b>2003</b>
Cash in Bank - Operating	\$ 37,154	\$ 65,361
Cash in Bank - Reserves (Note 2)	56,950	55,720
Petty Cash	100	100
Total Cash	94,204	121,181
Accrued Interest Receivable	206	221
Prepaid Insurance (Note 5)	4,204	3,891
Accounts Receivable Trade (Note 3)		
(Less allowance for doubtful accounts of \$533)	17,234	19,721
<b>TOTAL CURRENT ASSETS</b>	<b>115,848</b>	<b>145,014</b>
<b>PROPERTY, PLANT and EQUIPMENT: (Note 4)</b>		
Land	20,752	20,752
Buildings, Water System and Equipment	1,541,490	1,515,617
Furniture	7,757	7,756
Roads and Bridges	12,108	12,108
	1,582,107	1,556,233
Less Accumulated Depreciation	(1,081,569)	(1,041,385)
<b>TOTAL PROPERTY, PLANT and EQUIPMENT</b>	<b>500,538</b>	<b>514,848</b>
<b>OTHER ASSETS</b>		
Acquisition Costs (Note 7)	37,864	37,864
Organization Costs (Note 7)	24,471	24,471
	62,335	62,335
Less Accumulated Amortization	(48,310)	(46,751)
<b>TOTAL OTHER ASSETS</b>	<b>14,025</b>	<b>15,584</b>
<b>TOTAL ASSETS</b>	<b>\$ 630,411</b>	<b>\$ 675,446</b>

The accompanying notes are an integral part of these financial statements

**YARNELL WATER IMPROVEMENT ASSOCIATION  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2004 AND 2003**

**LIABILITIES AND EQUITY**

<b>CURRENT LIABILITIES</b>	<b>2004</b>	<b>2003</b>
Sales Tax Payable	\$ 1,080	\$ 1,084
Accounts Payable	731	1,776
Accrued Payroll Taxes	2,043	1,362
Accrued Real Estate Taxes	6,859	6,039
Accrued Interest Payable	358	443
Refundable Deposits	22,030	18,210
Current Portion of Long Term Debt	32,900	31,334
<b>TOTAL CURRENT LIABILITIES</b>	<b>66,001</b>	<b>60,248</b>
 <b>LONG TERM DEBT, less current portion: (Note 6)</b>		
Loan Payable - G.M.A.C. Commercial Mortgage (Originally secured for \$869,000 from FmHa, now paid annually including interest @ 5% amortized over 40 years)	373,213	404,735
Less Current Portion Above	(32,900)	(31,334)
<b>TOTAL LONG TERM DEBT, less current portion</b>	<b>340,313</b>	<b>373,401</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 406,314</b>	<b>\$ 433,649</b>
 <b>NET ASSETS</b>		
<b>Unrestricted</b>		
Contribution in Aid of Construction	\$ 653,995	\$ 653,995
Members' Contribution	588	585
Retained Earnings (Deficit)	(430,486)	(412,783)
<b>Temporarily Restricted</b>	0	0
<b>Permanently Restricted</b>	0	0
<b>TOTAL NET ASSETS</b>	<b>224,097</b>	<b>241,797</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 630,411</b>	<b>\$ 675,446</b>

The accompanying notes are an integral part of these financial statements

**YARNELL WATER IMPROVEMENT ASSOCIATION  
STATEMENT OF CASH FLOWS  
DECEMBER 31, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Change in Net Assets-Current Year Loss	\$ (17,703)	\$ (3,559)
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation unexpired on sale of backhoe	0	1,367
Depreciation and Amortization	42,919	42,036
Change in Other Assets	2,190	(3,611)
Change in Other Liabilities	4,186	(3,091)
Total Adjustments	49,295	36,701
Net Cash Provided by or Used in Operating Activities	31,592	33,142
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Member Contributions	3	0
Capital Expenditures	(27,051)	(34,035)
Net Cash Provided by or Used in Investing Activities	(27,048)	(34,035)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Payment on Long-Term Debt	(31,521)	(30,299)
Net Cash Provided by or Used in Financing Activities	(31,521)	(30,299)
<b>NET INCREASE (DECREASE) IN CASH</b>	(26,977)	(31,192)
<b>CASH AT BEGINNING OF PERIOD</b>	121,181	152,373
<b>CASH AT END OF PERIOD</b>	\$ 94,204	\$ 121,181

Total Interest Expense for 2004 and 2003 was \$20,446 and \$21,272.

The accompanying notes are an integral part of these financial statements

**YARNELL WATER IMPROVEMENT ASSOCIATION**  
**STATEMENTS OF ACTIVITIES**  
**DECEMBER 31, 2004 AND 2003**

<b>UNRESTRICTED NET ASSETS</b>	<b>2004</b>	<b>2003</b>
<b>Support</b>		
Metered Water Sales	\$ 220,300	\$ 216,838
Gain on Sale-Fixed Asset	300	6,134
Other Charges	1,235	6,243
Interest Income	1,887	2,284
<b>TOTAL UNRESTRICTED SUPPORT</b>	<b>223,722</b>	<b>231,499</b>
<b>EXPENSES</b>		
<b>Program Services</b>		
Power for Pumping	8,099	7,805
Supplies, Chemicals and Tools	11,468	18,888
Transportation, Fuel and Freight	2,666	2,129
Regulatory Expenses and Training	1,503	0
Bad Debts	758	44
Repairs	4,168	7,004
Maps, Surveys and Engineering & Misc	376	777
Licenses and Permits	1,209	866
Water Samples	2,533	1,907
Equipment Rental	421	692
Insurance	9,613	9,948
Interest	20,446	21,801
Real Estate Taxes	13,718	12,077
Depreciation Expense	41,361	40,478
Amortization Expense	1,558	1,558
<b>Total Program Services</b>	<b>119,897</b>	<b>125,974</b>
<b>Supporting Services</b>		
<b>Management and General</b>		
Salaries and Day Labor	92,656	84,024
Payroll and Other Taxes	8,400	6,969
Dues and Subscriptions	1,585	1,091
Office Expense and Postage	9,982	9,969
Outside Services	209	50
Legal and Accounting	8,696	4,581
Insurance - Employees	0	2,400
<b>Total Management and General</b>	<b>121,528</b>	<b>109,084</b>
<b>Fund-raising</b>		
None	0	0
<b>TOTAL EXPENSES</b>	<b>241,425</b>	<b>235,058</b>
<b>CHANGE IN UNRESTRICTED/NET ASSETS</b>	<b>(17,703)</b>	<b>(3,559)</b>
<b>NET ASSETS BEGINNING OF YEAR</b>	<b>241,797</b>	<b>245,356</b>
<b>CURRENT YEAR MEMBER CONTRIBUTIONS</b>	<b>3</b>	<b>0</b>
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 224,097</b>	<b>\$ 241,797</b>

The accompanying notes are an integral part of these financial statements

**YARNELL WATER IMPROVEMENT ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

Note 6 – Loan Payable-G.M.A.C. Commercial Mortgage Corp. (con't)

Schedule of debt maturity as of December 31, 2004, is as follows:

2005	32,900
2006	34,545
2007	36,273
2008	38,086
Thereafter	<u>231,409</u>

Totals	\$373,213
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Total interest expense in 2004 was \$20,446.

Note 7 - Acquisition and Organization Costs

The acquisition and organization costs are amortized and expensed ratably over a 40 year life, as originally requested by the Arizona Corporation Commission for rate setting purposes. This is a departure from GAAP. The financial impact is deemed immaterial.

**YARNELL WATER IMPROVEMENT ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

Note 1 - Summary of Operations and Significant Accounting Policy

The Association operates a water company in Yarnell, Arizona. The financial records are maintained on the accrual basis of accounting, as such, income is recorded when earned and expenses and liabilities are recorded when incurred. Depreciation is generally determined using the straight-line method over the estimated useful life of the assets, which is in accordance with U.S. generally accepted accounting principles. The Board of Directors is currently reviewing its' capitalization policies and considering establishing a \$1,000 capitalization limit. Any purchases under the \$1,000 threshold shall be recorded as an expense in the current year.

The majority of revenues generated by the company are collections from water services provided to residents of the town of Yarnell, and are recorded as unrestricted net assets. If and when a restriction is applied to any revenue collection, the restriction will be classified on the financial statement accordingly. The company is exempt from federal and state income taxes and files an annual not-for-profit income tax return.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from estimates.

Note 2 - Cash in Bank/Debt Service Reserve

Per a prior loan agreement with General Electric Credit Corp., the association must establish a cash reserve fund of \$51,428 within ten years of the loan commitment. This requirement has been fulfilled. The current reserve balance at December 31, 2004, is \$56,950. In 1997, General Electric Credit Corp. sold this note to G.M.A.C. Commercial Mortgage, the current loan service company.

G.M.A.C. Commercial Mortgage requires a debt coverage ratio (DCR) of 1.0. The debt coverage ratio of .885 at December 31, 2004 is not within the loan covenant agreement. The association's Board of Directors is considering a rate increase in order to help bring the association into compliance with the loan covenant debt coverage ratio.

**YARNELL WATER IMPROVEMENT ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

**Note 3 - Accounts Receivable**

The Association records all sales on the accrual method of accounting and posts monthly charges to members' accounts based on actual monthly meter readings. If it is impractical to read meters due to weather conditions, monthly invoices are estimated and adjustments made the following month, based on actual readings. The balance of \$17,234 at December 31, 2004 is deemed current and collectible. The company provides a monthly allowance for bad debts based on a fixed percentage of monthly billing. Bad debts are charged to this reserve as incurred.

**Note 4 - Property, Plant and Equipment**

The fixed assets of the Association are expensed ratably through straight-line depreciation over the various estimated useful lives of the assets as determined by management.

**Note 5 - Prepaid Insurance**

This amount represents the unused portion of the umbrella policy covering auto, property and liability. It is a one-year policy that is recorded as insurance expense on a monthly basis.

**Note 6 - Loan Payable-G.M.A.C. Commercial Mortgage Corp.**

The original loan received from the FmHa was payable at 5% over 40 years. The funds were used in the initial construction of the well site, pipelines, equipment and related buildings and other structures.

This loan was sold by the FmHa in 1987 to General Electric Credit Corp. The original terms remain the same. In 1997, General Electric Credit Corp. sold this loan to G.M.A.C. Commercial Mortgage Corp.